7/12/80 B 4750-1 O

Financial Markets

Irving Trust

Irving Trust Company
One Wall Street
New York, NY 10015

Economic Research & Planning Division

Friday July 11, 1980

Rates generally moved sideways through Wednesday, as market participants assessed the odds that the Wednesday meeting of the FOMC might produce a change in monetary policy. The lack of market action probably reflected the view that the scrapping of the Credit Restraint Program was largly symbolic.

On Thursday and Friday, the tone of the markets worsened, as many participants reacted with disappointment to the lack of overt evidence of Fed easing as well as the pickup in retail sales reported Thursday. In fact, the limited evidence indicates pretty clearly that--as had been predicted in this letter earlier--the Fed did not lower its minimum acceptable weekly average Fed funds rate from the 9% level. Our projections suggest that the Fed has a modest seasonal reserve-adding job to do in the statement week that began yesterday. Instead of moving to cover the need right away, the Fed held off, as funds generally traded at 8 3/4%. Today, the reserve need may have begun to show up in the market, as funds opened at 9% and shortly moved up. Shortly before noon, right after the funds rate had risen to 9 1/4%, the Fed offered a modest amount of customer RPs. The pattern of operating suggests a reluctance to add reserves as long as funds are trading at or below 9%. The disappointment of market participants was reflected in modest increases in certain short-term rates, together with more substantial adjustments in the long-term sector. For example, at the end of last week, the Treasury's 10% bond of 2010 was bid slightly over par; by the end of this week, it was bid under 98.

The termination of the consumer credit controls program came almost precisely when we had expected, but the dropping of the other parts of the program had not been anticipated until around September. In retrospect, it appears that two considerations may have spurred the Federal Reserve Board to scrap the whole program at once. The first has to do with the politics of the Board and Congress. The Fed--especially certain members of the Board--is undoubtedly anxious to demonstrate to Congress its concern for the worsening unemployment situation, while maintaining its commitment to slowing the inflation rate. Scrapping the entire program in advance of the congressional oversight hearings on July 22 was clearly one way of symbolizing the depth of that commitment. Another, more technical, consideration may also have favored the same course. To implement the Monetary Control Act of 1980, the Fed plans to reduce member bank reserve requirements every six months or so until the adjustment is completed. Since frequent changes of reserve requirements create operational problems for banks, the Fed may well have decided to minimize such difficulties by dropping the special reserve requirements now, rather than complicating the phase-out schedule by delaying.

In the near term, the markets may react somewhat further to the absence of immediate Fed easing (though by now that prospect has been pretty fully discounted). Nevertheless, the outlook is for additional easing, perhaps in a month or six weeks.

William C. Melton

Irving Trust

Market Yields

	7/11/80	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	(noon)		
Short-term loans to substantial depositors with highest credit rating	11.50	12.00%	11.50%
Effective since	7/7/80		
Discount Rate at Federal Reserve Bank	11.00	11.00	9.50
Federal Funds	9.13	9.38	10.24
Repurchase Agreements	8.25	8.25	9.80
U.S. Treasury Issues			
Bills			
3 months	8.25	7.96	9.65
6 months	8.50	7.89	9.75
1 year	8.60	7.89	9.48
Coupons			
2 years	9.00	8.21	9.00
4 years	9.35	9.32	8.85
7 years	9.60	9.68	8.85
10 years	10.20	10.10	8.95
Long Bond	10.25	10.00	8.90
Negotiable Certificates of Deposit-Secondary Market			
1 month	8.65	8.50	10.10
3 months	8.75	8.60	10.15
6 months	8.85	8.60	10.20
1 year	9.50	9.00	10.05
Banker's Acceptances			
1 month	8.50	8.80	10.12
3 months	8.70	8.75	10.20
6 months	8.80	8.60	10.25
Eurodollar Deposits			
1 month	9.13	9.25	10.56
2 months	9.25	9.31	10.69
3 months	9.38	9.38	10.75
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	6.00	6.00	10.00
1 month	8.38	8.25	9.90
3 months	8.38	8.00	9.38
Bank Holding Companies			
1 month	8.50	8.50	9.90
Dealer Placed:			
3 months	8.13	8.38	9.88
New AA Corporate Utility Bond	12.00	11.75	9.65
Tax Exempt			
6 month Project Notes	4.80	4.35	4.55
1 year AAA Bond	5.25	5.00	N/A
5 year AAA Bond	5.45	5.50	N/A
20 year AAA Bond	7.10	7.10	5.75

This information represents prevailing market yields.
It should not be construed as an offering.
All yields are on the offered side of the market.

Cable Address:
"IrvingBank" Telex: I.T.T. 420268 • R.C.A. 232241
W.U.I. 62832 • French 82629